

AASB 107 'Cash Flow Statements' Summary

OVERVIEW

Accounting Standard AASB 107 'Cash Flow Statements' will replace Australian Accounting Standards AAS 28/AASB 1026.

While AASB 107 is compliant with IAS 7 'Cash Flow Statements', the AASB has added paragraphs relevant to Australia. Overall, these amendments will result in AASB 107 being substantially the same as AASB 1026, which it will replace.

The main difference between AASB 107 and AASB 1026 is that the definition of cash equivalents in AASB 107 is wider than that in AASB 1026, which would result in more items being considered as cash in accordance with AASB 107 than under AASB 1026.

There should be no material impact on whole of government reporting and financial targets.

INTRODUCTION

Accounting Standard AASB 107 'Cash Flow Statements' will replace the current Accounting Standards AAS 28/AASB 1026.

AASB 107 adopts IAS 7 as the 'foundation' standard supplemented by Australian added material regarding the application and disclosure. AASB 107 requires the presentation of a cash flow statement and specifies the manner in which it is to be prepared, including a requirement that cash flows must be classified as arising from operating, investing or financing activities.

APPLICATION DATE

The Standard will be applicable from the first reporting period beginning on or after 1 January 2005.

TRANSITIONAL PROVISIONS

All first-time adopters of International Accounting Standards must follow the transitional provisions in AASB 1 'First-time Adoption of Australian International Financial Reporting Pronouncements'.

Under AASB 1, agencies with a 30 June year-end must produce an opening balance sheet at 1 July 2004 (unpublished) that is compliant with Australian equivalents to IFRSs.

POINTS OF INTEREST

The Standard retains the following stricter requirements of AASB 1026, which are not in IAS 7:

- permitting only the use of the 'direct' method of presentation of the cash flow statement (paragraph 18);
- requiring dividends paid to be classified as a financing activity (paragraph 34); and
- the requirement to include a reconciliation between cash flows from operating activities to profit or loss (paragraph Aus20.1).

AASB 107 paragraph (Aus20.2) retains the requirement in paragraph 6.3 of AAS 29, ie not-for-profit entities that highlight the net cost of services in their income statement for the reporting period shall disclose in the financial report a reconciliation of cash flows arising from operating activities to net cost of services as reported in the income statement. Treasurer's Instruction (TI) 1101(3)(v)(c) deals with this requirement.

Presentation of the Cash Flow Statements in the public sector will require disclosure of cash flows from/to State Government, currently prescribed by TI 1101.

The requirement to disclose credit stand-by-arrangements required by AASB 1026 is now included in AASB 132 'Financial Instruments: Disclosure and Presentation' (paragraph Aus94.1).

Definition of 'cash equivalents'

AASB 107 provides a wider definition of cash equivalents than that in AASB 1026. Under AASB 1026 (paragraph 14.1), cash equivalents is defined as "highly liquid investments with short periods to maturity which are readily convertible to cash on hand at the investor's option..." The effect of this is that only 'at call' deposits are included as cash equivalents.

Under AASB 107 (paragraph 6) cash equivalents are "short-term, highly liquid investments that are readily convertible to known amounts of cash..." Therefore, items such as short-term money market investments that are convertible to cash but **not** at the investor's option (ie at the purchaser's option) are also to be recognised as cash. Consequently, more items may be considered as cash.

It is considered that this wider definition has very limited application in the public sector.

AASB 107 is less detailed in the following areas:

Classification of Cash Flows

AASB 107 (paragraph 11) provides less detailed guidance regarding the classification of cash flows than is found in AASB 1026 (paragraphs 5.1.2 and 5.1.3).

Non-cash transactions and non-cash financing and investing activities

AASB 107 (paragraph 44) has fewer examples of non-cash transactions that must be disclosed than those provided under AASB 1026 (paragraph 11.1.1).

In addition, paragraph 11.1.3 of AASB 1026 comments that the requirement to disclose information about non-cash financing and investing activities can be either narrative or summarised in a schedule, and the disclosures should indicate clearly the cash and non-cash aspects of the transactions and other events. AASB 107 is silent on this matter.

AASB 107 is more detailed in the following areas:

Additional examples

AASB 107 provides more examples of cash flows from operating activities (paragraph 14), investing activities (paragraph 16) and financing activities (paragraph 17) than provided by AASB 1026.

Equity Accounting

AASB 107 (paragraph 38) comments on an entity that reports its interest in a jointly controlled entity using the equity method. This type of entity includes in its cash flow statement the cash flows in respect of its investment in the jointly controlled entity, and distributions and other payments or receipts between it and the jointly controlled entity. AASB 1026 does not provide commentary on this issue.

Tax Cash Flow

AASB 107 (paragraph 36) comments that where it is practicable to identify a tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities, that tax cash flow is classified as an investing or financing activity as appropriate. Although AASB 1026 commentary implies that this is the case, it does not provide the same level of detail.

IMPACT OF DIFFERENCES

Effect on general reporting in the public sector

The amount of cash at the end of the financial year in the cash flow statement would need to include all other short-term money market investments that are convertible to cash instead of just 'at call' deposits. We believe that this wider definition has very limited application in the public sector.

Overall, only minimal impact (disclosure only, no financial impact) is expected on public sector reporting.

Effect on Treasurer's Instructions (TIs) and Model Financial Statements

References to AAS 28 in TI 1101 and the model financial statements 'Statement of Cash Flows' and the related notes will require amendment.